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**New Challenges to
Governance Theory**

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Jean Monnet Chair Papers

New Challenges to Governance Theory

RENATE MAYNTZ

1998

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© Renate Mayntz
Printed in Italy in June 1998
European University Institute
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Definitions of governance and the purpose of this paper

The subject of this paper is the development, and the successive modifications, governance theory, a theory that began by being concerned with the steering actions of political authorities as they deliberately attempt to shape socio-economic structures and processes. In Germany this goes by the name of "Steuerungstheorie" (Mayntz 1987). The English term "governance" has long been equated with "governing", the process aspect of government, thus complementing the institutional perspective of government studies. In other words, governance was used roughly as a synonym of "politische Steuerung".

Recently, however, the term "governance" has been used in two other ways, both distinct from political guidance or steering (see figure 1). To distinguish these different meanings is not only important in order to avoid misunderstandings, but also because a change in semantics usually reflects a change in perception, whether this in turn reflects changes in reality or not.

For one thing, "governance" is now often used to indicate a new mode of governing that is distinct from the hierarchical control model, a more cooperative mode where state and non-state actors participate in mixed public/private networks. Governance as an alternative to hierarchical control has been studied on the level of national (and sub-national) and of European policy-making, and in international relations. The works by Jan Kooiman (1993) and R.W.A. Rhodes (1997) illustrate the first, the article by Bulmer (1994) the second, and the book by Rosenau and Czempiel (1992) the third of these strands. It is hard to say where exactly this particular meaning of the term originated. In the March 1998 issue of the *International Social Science Journal* that is entirely devoted to "governance" in the sense of non-hierarchical modes of coordination (UNESCO 1998), the concept is traced to a 1989 World Bank report, i.e. the international context. In any case it is clear that attempts at collective problem-solving outside of existing hierarchical frameworks, such as we can observe on the European and the international level, have contributed significantly to this shift in the meaning of the term governance.

The second "new" meaning of the term governance is much more general, and has a different genealogy. Here governance means the different modes of coordinating individual actions, or basic forms of social order. This use of the

term seems to have grown out of transaction cost economics, more specifically Oliver Williamson's analysis of market and hierarchy as alternative forms of economic organization (e.g. Williamson 1979). Williamson's typology was quickly extended to include other forms of social order such as clans, associations, and - most importantly - networks (e.g. Hollingsworth and Lindberg 1985; Powell 1990). It was in fact the "discovery" of forms of coordination not only different from hierarchy, but also different from the pure market form, that led to the generalization of the term "governance" to cover all forms of social coordination - not only in the economy, but also in other sectors. In this way, the attention payed to forms of "modern governance" (governance in the second meaning of the term) triggered another semantic shift. The third meaning of governance now includes the two more narrow understandings of the term as sub-types.

Fig. 1

Evolution of the theory of political governance

- (1) early 70s
prescriptive theories of planning
- (2) 70s
empirical studies of policy development
(agenda setting, instrument choice,
role of law, organizational context)
- (3) late 70s/early 80s
policy implementation

In the following, I will first sketch the evolution of the theory of political governance in the narrow sense of steering (Steuerungstheorie). I shall then trace successive paradigm shifts, or modifications of this theoretical frame. Finally I will discuss the most recent, and as yet only partly met challenges to

the theory. To avoid the disappointment that arises from mistaken expectations, a few disclaimers are in order. It is not the purpose of this paper to make a substantive contribution to governance theory, to challenge one of its premises or to introduce new theorems. My intention is rather to reflect on the development of a certain body of political theory, a development in which I have actively participated over more than 20 years. In reconstructing this theoretical development it will not be possible to spell out in detail the content of the literature I shall refer to, nor shall I attempt to document the unfolding of governance theory by extensive references¹. An account of the development of governance theory can serve to put seemingly separate fields of research into a larger context, but it also does more: It raises an important issue about the nature of theory development in political science. Does this development follow an internal cognitive dynamic, or is it simply a reflection of changes in political reality or in problem perception, as John Dryzek and Stephen Leonard (1988) have argued? The answer to this question will indicate whether political science is cumulative, building step by step a more inclusive theory, or is meandering from topic to topic, following the shift in subjective definitions of what is salient.

The development of the core paradigm of political governance

The modern theory of political governance (Steuerungstheorie) emerged after World War II at a time when governments aspired explicitly to steer their nations' social and economic development in the direction of defined goals². The first paradigm of the theory evolved in three successive phases:

- (1) In the late 1960es it began with a - largely prescriptive - theory of *planning* (how to steer).
- (2) In the 1970es, with the planning euphoria waning, *policy development* became the object of empirical analyses; this directed attention to context factors influencing policy development, in particular executive organization; different policy instruments were discussed, in particular the role of law.

¹ For such a documentation, see Mayntz 1996 and the literature cited there.

² For a more detailed description of the theory development summarized in this section see again Mayntz (1996).

- (3) Finally, in the second half of the 1970es, *policy implementation* became a new research focus.

The first paradigm of a theory of political governance was thus concerned with policy development and policy implementation, and it adopted a top-down, or legislator's perspective.

This theory carried in itself the seeds of its own transformation. Implementation research called attention to the fact of wide-spread policy failure, and proved that such failure was not only the consequence of cognitive mistakes in planning or of shortcomings on the part of implementation agencies, but of having neglected the recalcitrance of the target groups of public policy and their ability to resist or subvert the achievement of policy goals. This recognition led to a first, important enlargement of the initial paradigm. Had it so far concentrated on the *subject* of political steering, government and its ability or inability to steer, it now included also the structure and behavioral dispositions of the *object* of political control. In German, this meant to shift the focus from *Steuerungsfähigkeit* to *Steuerbarkeit*, i.e. governability. In a second step it was recognized that governability varies considerably between policy fields (or sectors). For instance, policy fields consisting of a specific category of individuals (e.g. youth) or households (e.g. single-parent households) call for a different policy approach than do policy fields dominated by a few big organizations. Thus the top-down perspective of the initial paradigm (policy making and implementation) was extended by the inclusion of bottom-up processes of selective compliance with policy measures by their target groups, processes which are in turn conditioned by the structure of a given regulatory field. This expansion of the analytical perspective taught us much about the conditions of policy effectiveness.

However, the research that followed, and elaborated, this enlarged paradigm undermined what had so far been the basis of the model of political governance, i.e. the assumption that the state, even if it meets with resistance from target groups, is the control centre of society. The disappointment of the belief in the existence of an effective political control centre then directed attention to alternative forms of societal governance: In two separate lines of discussion, market principles and horizontal self-organization were discussed as alternatives to hierarchical political control. This ushered in another extension of the paradigm.

Market principles were first prominently discussed as a more effective alternative to regulation in American environmental policy. At about this time,

market principles became the backbone of the political ideology of neo-liberalism and Thatcherism, promoting deregulation and privatization as means to stimulate economic growth and to increase economic efficiency. Political scientists analyzed the emergence and the policy consequences of this “neo-conservatism”, using the analytical framework of policy analysis (e.g. Döhler 1990). More recently the demise of state socialism strengthened the belief in the ordering power of the market. Meanwhile, however, attention has turned to the potential contradictions between market principles (or capitalism) and democracy (e.g. Dunn 1990, Katz 1997, Kitschelt 1985), an issue that so far has not been part of governance theory. The development of governance theory, even of governance theory applied specifically to economic organization, focused instead on the second alternative to hierarchical control, i.e. cooperative and horizontal forms of societal self-regulation and of policy development. In other words, attention turned to governance in the second of the three senses distinguished above.

Fig. 2

The governance paradigm and its extensions

Basic paradigm:	policy development (by government) + policy implementation (by public agencies)
1 st extension:	include bottom-up perspective: sectoral structure and target group behavior
2 nd extension:	include policy-development and implementation in public/private networks and self-regulating societal systems
3 rd extension:	include effect of European policy upon domestic sectoral structures and policy-making
4 th extension:	include European level of policy-making
5 th extension:	include political input processes on European and national level

At the centre of this new line of discussion were different kinds of negotiating systems. Along the way, traditional forms of what might generally be called societal self-regulation also received new attention, in particular local self-government and the so-called "third sector" of private, non-profit service organizations, but this is not what is usually meant by "modern governance". The two major types of negotiating systems are neocorporatist arrangements, or more generally mixed public/private policy networks, and systems of societal self-regulation in which the state does not directly participate, such as the institutionalized wage bargaining system between capital and labor (Tarifsystem) or the self-government of the German public health system, in which the organizations of health fund physicians and of public hospitals bargain with health fund representatives about fees. Another form of societal self-regulation are the so-called private interest governments (Streeck and Schmitter 1985). Here opposing interests are not represented by independent organizations, but are internalized within regulatory regimes that subject the activities of private agents to a self-imposed discipline; the German technical standardization agency DIN is a case in point (Voelzkow 1996).

By the middle of the eighties, the theoretical discussion was dominated by the terms decentralization, cooperation, and network. This was quite in line with the spirit of the times, which was set against all manifestations of hierarchical authority, whether by parents, teachers, or the state. However, it was quickly realized that the problem-solving capacity of public/private networks and of societal self-regulation may be limited. Networks typically emerge where power is dispersed among the agents in a policy field, but where cooperation is necessary for the sake of effectiveness. As the various public and/or private agents in a policy field typically have different interests, this poses the problem of how to agree on an effective problem-solution without shifting the costs this implies to outsiders (Scharpf 1993). The discussion of this issue within the framework of governance theory is an elaboration, rather than a further extension, of the theoretical paradigm as it had evolved by now.

A second important line of elaboration started from the observation that, from the viewpoint of the original, top-down conception of political governance, the negotiation of political with societal actors in policy networks or neo-corporatist structures and the delegation of regulatory functions to institutions of local or sectoral self-government indicate a loss of steering capacity. The state appeared weak, "semi-sovereign" (Katzenstein 1987) - a perspective consonant with modern systems theory and with concepts of post-modernism, both of which are characterized by viewing society as centreless, or polycentric (e.g. Willke 1987). However, empirical political science research has

made it clear that what we are dealing with is not so much a loss of state control, but rather a change in its form. Societal self-regulation takes place, after all, within an institutional framework that is underwritten by the state. The state does not only legitimize, but has often enough helped to establish various forms of self-government. Where state actors participate in policy networks, they are a very special and privileged kind of participant; they retain crucial means of intervention, and this holds even where decision-making has been devolved to institutions of societal self-government. In particular, the state retains the right of legal ratification, the right to authoritative decision where societal actors do not come to a conclusion (e.g. in negotiations about technical standards), and the right to intervene by legislative or executive action where a self-governing system such as the German health system fails to meet regulatory expectations. Thus, hierarchical control and societal self-regulation are not mutually exclusive. They are different ordering principles which are very often combined, and their combination, self-regulation "in the shadow of hierarchy", can be more effective than either of the "pure" governance forms (Mayntz and Scharp 1995).

Challenges to governance theory: Europeanization and globalization

Having arrived at this point, the basic frame of a theory of political governance seems complete. But meanwhile new problems have arisen, notably the crisis of the welfare state that is connected with European integration and economic globalization. In the light of Europeanization and globalization, certain accepted and apparently unproblematic features of the previously sketched theory of governance appear suddenly as deficits, deficits which can trigger a new phase in theory development by challenging governance theory to extend its analytical frame once more. The deficits in question are:

- the concentration on the single nation state (even where international comparisons are made),
- the selective concern with domestic politics - a point closely linked to the first, and
- the concentration on policy effectiveness, on the output and outcome of policy processes, neglecting the input side of policy formation and the relationship between both.

The theory of political governance has so far dealt with political systems that have a clear identity, a clear boundary, and a defined membership which implies specific rights and duties. This kind of approach is incapable of dealing with the problems raised by European integration, and especially with the problems raised by globalization.

The formation of the European Union has established a new, transnational governance structure. The European Union is decidedly more than a regime, a contractual frame or a negotiating arena, but it is as clearly not a federal state; it can best be described as a complex multi-level system whose dynamics cannot well be understood in the conceptual frame developed for the analysis of political governance in nation states. Private interest governments, for instance, are still largely of a national scope. The tripartite configurations, or triangles, that at the national level link political parties, interest groups and government agencies, or the neocorporatist arrangements linking the state, employers, and organized labour, are not structurally replicated at the European level. There are no true European political parties, organized labour is only weakly represented, and the representation of industry is even much more diversified and complex than on the national level. New categories are needed for the analysis of European policy-making and implementation³.

For a theory of political governance, European integration has two consequences: (1) it raises new problems of governance on the national level, and (2) it requires the extension of governance theory to a supra-national level.

Ad (1): The shift of powers to the European level requires us to study the effect of European directives upon various sectors of the national economy (agriculture, food stuffs, the banking and insurance sector, energy, railroads, road transport, etc.). This is in fact being done (e.g. Schneider 1988, Lütz 1998). In this way the previous paradigm is extended once again, this time by adding an important *external* factor of policy formation and implementation. European policy decisions affect the conditions of effective domestic policy resting in the structure of the regulatory field, and at the same time restrict the freedom of national policy choice. This results in a loss - this time a genuine loss - of control capacity for national governments (Scharpf 1997). But this loss does not only follow from the shift of legislative and regulatory competences from the national to the European level; it also follows from European market integration, the gradual dissolution of national economic boundaries.

³ This does not mean that the European Union is a *sui generis* case that can only be analyzed in a framework tailored uniquely to it alone; for this discussion see Hix (1998).

The consequences for national economies are intensified competition and increasing mobility of productive capital and of finance capital. This creates new problems for national tax regimes and tax policy, national economic policy, and last not least the national welfare state, problems that have in fact all become prominent topics in political science research⁴.

Ad (2) We can also observe the growth of a field called "European policy-making" (e.g. Héritier, Knill, and Mingers 1996; Richardson 1996). What is not yet clear is whether this will, in the long run, become a separate field of study, or remain a genuine extension of existing governance theory. The latter requires that such studies are not undertaken in a comparative perspective of policy sectors, but focus on the interconnection between different levels of policy-making. In other words, the object of study would not be what happens in Brussels (or between Brussels and Straßburg), but the mutual interdependence between national and European policy processes in a multi-level system.

Concern with European policy-making also calls attention to the third blind spot of the national governance paradigm mentioned above. It is a peculiarity of European policy-making that democratic elements are largely lacking, or at least weakly developed. As Fritz Scharpf (1998) demonstrates, rule-making by the European Commission is based on technical expertise wherever action goes beyond the implementation of the common interest of all member states. Where national interests diverge, which is generally the case for decisions with redistributive consequences, technical expertise alone cannot legitimate interventions. Where redistributive decisions require full consensus, the result will simply be blockade. Decisions with redistributive effects are tolerated only within stable communities (we-groups), and only if they have been arrived at by democratic procedures. The European Union meets neither of these preconditions: It is not a socially integrated system, and it lacks a European-wide democratic decision process.

The discussion about a European democracy deficit makes us aware that what is clearly lacking in European policy-making - a fully developed and well functioning democratic input process - has apparently been taken for granted at the national level, an assumption that permitted to neglect the political input process in the analysis of national policy making⁵. In retrospect it is indeed surprising how long democracy theory and the theory of (national) political

⁴ The present research program of the Max-Planck-Institute for the Study of Societies in Cologne is nearly entirely devoted to these problems.

⁵ An early exception is Scharpf (1974).

governance have remained isolated from each other. When governance theory came to focus on horizontal cooperation and policy formation within networks, it was recognized that this raises the problem of democratic accountability, because the private actors in policy networks typically lack democratic legitimation. Horizontal cooperation and negotiation in networks can be no substitute for democracy, even though, in view of the difficulty of representing very specific interests within a system of general elections, the development of policy networks that include representatives of opposing socio-political interests is sometimes seen as a more practicable modern form of interest representation. Helmut Voelzkow (1996) is one author who has explicitly dealt with the tension between these two different forms of interest representation. If this tension is not recognized there is the danger that a governance theory highlighting horizontal cooperation and societal self-regulation leads inadvertently to a renaissance of old corporatist models (see Bowen 1971). But to recognize the existence of a problem of accountability where policy-making occurs in mixed public/private networks is not the same as trying to include the input part of the policy process explicitly into the theoretical paradigm of political governance. This challenge has not been met so far, and it is indeed a question whether an integration of democracy theory and governance theory as we know it would overextend the latter. Still, it might be worthwhile to pursue this path of theory development a few steps further.

While political science has responded, at least partly, to the challenges which Europeanization poses to governance theory, this does not equally hold for the challenges connected with globalization. Globalization is in fact a much more serious challenge to any theory of political governance. At the European level it is, in principle, still possible to talk of a *policy process* with its input and output aspects. This is no longer possible at the global level where there exists no identifiable steering subject, and no institutionalized framework containing the object of steering. What is, often rather vaguely, referred to by "globalization" has not resulted in the formation of a new higher order system, a truly transnational system with its own identity, boundary and membership roles. This of course raises the question whether the structures and processes generated by globalization can still be a subject for the theory of governance. This question can be answered affirmatively if, and only if, we speak of governance in the widest sense of basic modes of coordination, because only in this case is the concept not tied to the existence of some sort of a political control structure.

Globalization is usually taken to refer to two interrelated processes (e.g. Stykow and Wiesenthal 1996):

- expanding *communication*, both transport and information exchange, and growing personal mobility (migration!), meaning that the formation of social groups becomes increasingly independent of geographical location;
- the emergence of *global markets* for capital, goods and services, as a consequence of liberalization, deregulation, and the growing ease of communication.

As in the case of European integration, these processes raise both (1) new problems for a theory of national political governance, and (2) issues of transnational governance different from European integration.

Ad (1) Though national governments have themselves spurred the process of globalization through policies of liberalization and deregulation, they are now forced to consider how to respond to the challenges it raises. There are basically three different strategies. One strategy is unilateral adaptation; the possible measures are similar to those that are being discussed in relation to the European common market, which means that this issue is already being covered in contemporary research. A second strategy is protectionism and isolationism; at the most, this adds a new policy problem to the catalogue of domestic policies already dealt with by policy studies. A third strategy would be efforts to ward off specific impacts (e.g. illegal immigration) by international coordination. At this point we are leaving the national level of analysis and must turn to the issue of transnational governance.

Ad (2) Problems of international coordination beyond the European context have been studied for some time already by scholars of international relations (e.g. Krasner 1983). This sub-discipline of political science evolved quite separate from (national) governance theory. In international relations, the actors and negotiating partners are states that stand in a relationship of strategic interdependence. This is the reason why there exists an obvious affinity between international relations and game theory. The international relations approach assumes that nation states are the most important actors on the global scene. This perspective is misleading if we take a closer look at the governance issues that present themselves at the global level.

Globalization does not simply mean that economic and non-economic relationships become increasingly transnational. There is more *movement* across national boundaries - movement of goods, services, capital, information, scientific knowledge, and last not least of people. This results in new, often one-sided dependencies, but only partly in new transnational *relationships*. Unbri-

dled competition for instance is increasing, though it does not affect all branches of national economies in the same way. New transnational markets are less well regulated and hence tend more toward atomism and anarchy than has been true of market relationships contained within nation-states. This also means an increase in uncontrolled negative externalities, ecological as well as social and economic. There is a growing disjunction between increasingly unbounded and farflung economic and communicative networks on the one hand, and bounded political systems on the other hand, a disjunction between problem structures and regulatory structures that might cope with these problems. In response to this situation, conscious efforts have been made, and continue to be made, to institute transnational regulatory structures. The UN is of course the most inclusive of such structures, a conglomerate of sub-organizations and special organs ranging from a simple forum (UNCED = UN Conference on the environment and sustainable development) to corporate actors such as the World Bank, with UNESCO, ILO, WHO and WTO possibly somewhere in between (Rittberger et al. 1997).

To investigate the emergence and functioning of transnational regulatory structures *beyond* the EU is certainly a fascinating agenda for a theory of political governance. But this is not where the challenge ends. Globalization poses yet another theoretical problem: The problem of the co-existence of many different types of structures and processes, i.e. different governance modes. Market models and the non-linear dynamics of ecological systems seem best able to deal with the aggregate outcomes of a fragmented, but interdependent global economy. In the structurally diffuse context created by globalization, specific events or changes often cannot be causally attributed to the behaviour of identifiable actors. Situations of recognized strategic interdependence that can guide the choice among alternatives are rare. In the global market, most agents play, as it were, most of the time "against nature". At the same time, however, the transnational scene is not devoid of structure. The new regulatory structures have already been mentioned. There are, furthermore, many kinds of international as well as transnational organizations - the large multi-national corporations, transnational professional associations, interest organizations and scientific organizations. Finally there exist transnational epistemic communities and social movements, incipient social groups without a clear geographical reference. Together, these various transnational groupings, regimes and organizations, with their often fluid boundaries and cross-cutting domains, their mutual and one-sided dependencies, form a structure of such complexity that it seems to defy all our analytical efforts: What confronts us here is truly Habermas' "neue Unübersichtlichkeit" (Habermas 1985). Only if we enlarge the governance perspective to include *all*

of the different modes of social ordering, *all* of the different types of actor configurations beyond hierarchies and networks, their combinations and particularly *their interactions*, might we be able to address the issues created by transnationalization and globalization. Should such a theory emerge, it would have to be a governance theory of a very different kind from the one we started with in this account.

What is an obvious theoretical problem on the global level alerts to the existence of an analytical dimension that also applies at the national level. Governance studies at the national level have typically used an approach that has come to be called actor-centered institutionalism (Mayntz and Scharpf 1995, Scharpf 1997), i.e. they are concerned with actors acting and interacting within institutional frameworks. The actors whose decisions (and non-decisions) are studied to explain policy outcomes are normally corporate actors: agencies, organizations, associations (represented, of course, by individuals). Simple "populations", collections of many individuals responding to given stimuli in the same way, normally play a role only as target groups of some policy. Aggregate effects arising from the uncoordinated actions of many individuals appear only as parameters in policy analyses, not as a process to be explained *within* the theoretical framework of governance. Only in exceptional cases do we find an analysis of the *interplay* between steering attempts on the part of corporate actors, and processes of collective behavior that evolve first for reasons of their own, but may then motivate, and later on also react to, political interventions. In the sectoral studies of the transformation processes in East Germany there are some analyses of this kind (e.g. Wasem 1997). But in general the fact that processes following different logics - collective behavior, market exchange, bargaining, negotiation, and authoritative intervention - co-exist and are causally interrelated has not been a topic in (national) governance theory.

Whether this can be called a deficit of governance theory in particular is, however, an open question. Parallel to what has been argued for a global governance theory it may well be that to extend the paradigm to include *pari passu*, i.e. on an equal footing all the distinguishable forms of coordination, or social ordering, would *over-extend* it, making it loose the necessary amount of selective attention that is a prerequisite of theory-building - for human minds at least. In any case we would no longer deal with a theory of political governance, but with a much more comprehensive theory of social dynamics, i. e. not with an extended, but with a completely new theoretical paradigm.

Conclusion

In this paper, I have traced through several stages the development of a body of theory concerned with the forms and problems of social and political guidance. In retrospect, this development looks like the successive unfolding of a cognitive agenda, driven step by step by the awareness of blind spots and of deficits in explanatory power vis-a-vis observable reality. There have been some interesting bifurcations in the process, e.g. when governance theory concentrated on horizontal cooperation rather than the market as alternative to hierarchical authority, and there are still blind spots in the theory to which it has not reacted. But until now, this has been a cumulative cognitive process that did not follow the developmental logic of political science described by John Dryzek and Stephen Leonard (1988), who argued that the objects of political science are historically contingent, wherefore political scientists must continually begin to develop new and different analytical frames and substantive theories that cannot build upon each other. At least in the case of governance theory (which is, of course, not all there is to political science) we find instead a successive extension of the initial framework, not its suppression and exchange for a new one, i.e. not a paradigm shift in the radical Kuhnian sense (Kuhn 1962). In this development, changes in political reality have played an important role, influencing the direction in which the paradigm was being extended. The modern state has in fact become more "cooperative", networks have proliferated, and European integration is a new phenomenon. These observable real changes were challenges that could be accommodated by extending the paradigm. But with globalization, there may well have come the point where a further extension of the paradigm would be dysfunctional, and we may witness the emergence of an altogether new field.

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Among her latest publications:

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